

# Austria

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## IN A NUTSHELL

- The economy grew by 4.8%, expected to grow by 3.5% in 2022 with 5.3% inflation (forecast of May 2022).
- House prices rose by more than 12%.
- Construction investment increased by 2.1%, the number of real estate transactions increased by 9.1%.
- Policy measures were introduced to help households including mortgage payment moratoria.
- Subsidised housing continues to be a pillar of construction financed with subsidies from the Länder ("Wohnbauförderung").

## MACROECONOMIC OVERVIEW

The economy recovered more strongly than expected from the sharp contraction in 2020. With the onset of another wave of infections, the rebound slowed in late 2021/early 2022. GDP growth was 4.8%, only affected slightly by this covid wave. The conflict in Ukraine will likely cause output growth to decelerate and inflation to rise. The latest update of the OeNB's economic outlook from March 2022 indicates that the war will inhibit growth and add to inflation. On a best case assumption of a timely end of the conflict, the OeNB expects the economy to grow by 3.5% in 2022 with inflation increasing to 5.3%. Compared with projections in December 2021, this is a downward revision of 0.8 pps for GDP and an upward revision of 2.1 pps for inflation. While the impact of the conflict in Ukraine accounts for roughly half of the downward revision of output growth, its impact on the upward revision of inflation is about a quarter.

For 2023 and 2024, the OeNB forecasts output growth to decline to 2.2% and 2.0%, and inflation to ease to 2.9% and 2.3%, respectively. These figures are the results of OeNB's forecast update. Alternative scenarios – that is, assuming protracted conflict, ongoing sanctions and a reduction of Russian gas supplies – yield much higher output and inflation effects.

## HOUSING MARKETS

The steep increase in residential property prices since the second half of 2020 has continued. Price growth remained above 10% y-o-y in the fourth quarter of 2021 – both in Vienna and in the rest of the country. In Vienna, prices increased by 11.3%, while prices in the other provinces rose by 13.9% year on year. For Austria as a whole, house price growth reached a new peak at 12.6% in the fourth quarter, following a 10.6% y-o-y rate of increase in the third quarter.

Compared with the previous quarter, house price growth increased in all segments. Having picked up by 3.9% in the first quarter of 2021, residential property prices increased by 2.4% in both the second and third quarters. In the fourth quarter of 2021, q-o-q growth accelerated again, reaching 3.2%. For Austria's provinces excluding Vienna, growth accelerated even more markedly

to 4.4% in the fourth quarter (after 1.5% in the third quarter).

Given the steep increase in prices, the OeNB's fundamentals indicator for residential property prices for the whole country went up significantly in the course of 2021, signaling increasing overheating of the residential real estate market in Austria. At 29.8%, the indicator was up 7.6 pps on the previous quarter – the sharpest increase since the start of the series in 1989. The indicator for Vienna in particular amounted to 35.6% in the fourth quarter of 2021, representing of 5.1 pps increase compared with the third quarter.

The residential property sector has shown to be more resilient to the pandemic than the commercial property sector. The social and affordable housing sector – municipal housing, limited-profit housing associations (LPHA) and rent-regulated private apartments – are one third of the total housing stock and three quarters rented apartments and did not react on the initial economic effects of the pandemic at all, as rent increases are largely linked to the CPI.

## MORTGAGE MARKET

In December 2021, the annual growth rate of housing loans to households rose to 6.9%. Long-term loans (with a maturity of more than 5 years) continued to be the main driver of housing loan growth, accounting for more than 95% of outstanding loans at the end of December 2021, although short-term loans recorded a stronger increase over the past few months as well. Conditions for housing loans remained favorable – in November 2021, interest rates on new housing loans stood at 1.20%, unchanged against 6 months earlier, but 19 bps lower than in February 2020 (before the onset of the pandemic). The total borrowing costs (interest and related charges), dropped by 22 bps over the same period.

The share of foreign currency loans decreased further over the second half of 2021, standing at 6.8% of all outstanding housing loans in November 2021, 1.6 pps lower than one year earlier. In the same period, the share of variable rate loans (with an initial rate fixation period of up to one year) in new housing loans remained more or less unchanged, amounting to 38.7% in November 2021. (for more details see Financial Stability Report 42, November 2021).

## MORTGAGE FUNDING

According to data from the fourth quarter of 2021, 61.6% of loans to nonbanks are secured by mortgages. Almost half of the loans to the corporate sector were granted to companies active in the real estate sector (construction, real estate and housing). More than half of the loans to the nonbank sector are used for financing real estate projects.

## HOUSING POLICY

The key characteristic of housing policy is its focus on regulated rental housing and its financing tools. The Limited-Profit Housing sector continues to flourish, with 19,600 completed apartments in 2020 (2.2 units per 1,000 inhabitants),

the highest number for 20 years. A new trend is seen in municipal housing, with Vienna reviving its own construction activities after more than 20 years of no new social housing construction. Initiatives to liberalize private rental markets have been postponed. Social housing supply follows a generalist eligibility approach with high income limits. Hence policy still promotes integrated rental markets.

Financing of affordable housing mainly relies on the housing subsidy schemes of Austrian Länder (“Wohnbauförderung”), which have spent approx. EUR 2.1 bn in new construction, refurbishment and housing allowances in 2020. In addition, the Federal State has increased its activities for decarbonisation of the housing stock substantially, with a budget of EUR 650 mn for the years 2021/22. Other tools, such as tax subsidies, a minimum income scheme, subsidies on financing products or for green investments, play a subsidiary role. The financing system of the “Wohnbauförderung” gains its efficiency through the close interaction with the system of limited profit housing construction and tailor-made capital market financing instruments. Altogether, public expenditure on housing is at around 0.5% of GDP, which is one of the lowest shares in EU comparison. Nevertheless, outputs are quite remarkable, taking quantity and quality of housing, affordability, aspects of social integration and progress in housing decarbonisation.

The existing focus on housing decarbonisation both with financing tools of the “Länder” and the Federal State has been accelerating as a result of the war in Ukraine. Oil heating in new construction is prohibited since 2020, and gas heating will probably be banned from 2023. Moreover, around 40% of apartments with fossil heating shall switch to renewable alternatives by 2040.

The COVID19 Act from April 2020 also included housing policy measures, amongst them a temporary ban of evictions for non-payment of rents, and the deferment of prosecution for defaulting on utility payments. Similar to the GFC of 2008/09, subsidies and limited-profit housing worked as a shock absorber during the pandemic. Housing policy remains a key issue in the current political landscape, and will like remain a cornerstone of the future public policies, given the ample support from different political options.

	AUSTRIA 2020	AUSTRIA 2021	EU 27 2021
<b>MACROECONOMIC VARIABLES</b>			
Real GDP growth (%) (1)	-6.7	4.8	5.4
Unemployment Rate (LSF), annual average (%) (1)	5.4	6.2	7.0
HICP inflation (%) (1)	1.4	2.8	3.0
<b>HOUSING MARKET</b>			
Owner occupation rate (%) (1)	55.3	54.2	70.0
Gross Fixed Investment in Housing (annual change)(1)	1.6	1.7	6.6
Building Permits (2015=100) (2)	119.1	108.0	134.0
House Price Index – country (2015=100) (2)	132.4	148.0	145.2*
House Price Index – capital (2015=100) (2)	124.1	137.5	146.1*
Nominal house price growth (%) (2)	7.0	11.8	10.3*
<b>MORTGAGE MARKET</b>			
Outstanding Residential Loans (mn EUR) (2)	125,528	136,157	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	17,059	18,428	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	53.3	57.5	62.8*
Gross residential lending, annual growth (%) (2)	24.5	-2.3	12.2
Typical mortgage rate, annual average (%) (2)	1.3	1.2	2.0

\* Please note that this value is the simple average of the available values in 2021.

**Sources:**

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

## AUSTRIA FACT TABLE

<b>Which entities can issue mortgage loans in your country?</b>	Mortgage lending is mainly financed via banks and Bausparkassen.
<b>What is the market share of new mortgage issuances between these entities?</b>	Not available
<b>Which entities hold what proportion of outstanding mortgage loans in your country?</b>	Bausparkassen hold the biggest proportion of residential mortgages in Austria. In combination with the Saving Banks Group, Bausparkassen represent the largest market share of the mortgage market.
<b>What is the typical LTV ratio on residential mortgage loans in your country?</b>	According to Oesterreichische Nationalbank's 2014 Financial Stability Report, the average LTV of private households is around 60% (based on survey data).
<b>How is the distinction made between loans for residential and non-residential purposes in your country?</b>	Not available
<b>What is/are the most common mortgage product(s) in your country?</b>	Both variable rate loans and foreign currency loans are common mortgage products in Austria, but variable rate loans remain the most popular choice. However, there is a falling trend in their share in total loans over many years (in 1Q2019 around 11% of mortgage loans were foreign currency loans and around 45% of new issued mortgage loans were variable rate loans).
<b>What is the typical/average maturity for a mortgage in your country?</b>	Mortgages typically have a maturity rate of 25–30 years.
<b>What is/are the most common ways to fund mortgage lending in your country?</b>	Mortgage funding in Austria is mainly deposit-based. According to the IMF covered bonds only made up 7.1% of the outstanding mortgages in 2008, meanwhile securitisation as a way of funding is even less popular making up only 3.1%.
<b>What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?</b>	In addition to the cost of borrowing, one should add a mortgage fee, VAT, notary fees and taxes. In total, around 10% of the purchase price are to be added as costs at the house purchase.
<b>What is the level (if any) of government subsidies for house purchases in your country?</b>	Government housing subsidies accounted for 0.6% of the GDP in 2018. The subsidy scheme of the "Länder" predominantly supports supply side. i.e. low interest loans, grants and guarantees to housing developers, mostly Limited Profit Housing Associations. They provide rental, rent to buy and a small share of affordable owner-occupied apartments. Additionally, refurbishment is subsidized and housing allowances are granted.